

PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

11-0318R

RESOLUTION OF CONCEPTUAL SUPPORT FOR PROVIDING A
SUBSTANTIAL BUSINESS SUBSIDY ASSISTANCE TO INVOLTA FOR A
PROJECT THAT PROVIDES SUBSTANTIAL BENEFITS TO THE
COMMUNITY OTHER THAN DIRECT JOB CREATION

CITY PROPOSAL:

The city council of the city of Duluth hereby finds the following:

(a) Involta, LLC ("Developer") has been attracted to consider locating a data center ("Project") in Duluth by APEX and other development partners; and

(b) The Developer has indicated that the availability of JOBZ benefits and Tax Increment Financing for the Project are required in order to locate its Project in Duluth; and

(c) The Project would build the technology infrastructure that can be utilized to serve the information technology and data storage needs of several local businesses and also attract additional quality jobs to the City of Duluth; and

(d) The Project further diversifies the local economy by strengthening the information technology sector and creates employment options for employees in the high tech sectors; and

(e) Developer has expressed a willingness to develop a Phase I 24,000 square foot data center facility providing high end office space and critical data storage and services for major employers in this region; and

(f) The Project will also attract corporate clients from outside the area, creating both corporate presence and high quality employment opportunities; and

(g) The facility represents a private sector investment for Phase I up to \$10.5 million; and

(h) Upon the successful completion of Phase I, Developer has expressed interest in additional expansions of up to approximately \$40 million; and

(i) Phase I will initially create direct employment of 8 highly skilled positions with the strong potential for an additional indirect construction and contracted employment of approximately 40 - 80 jobs; and

(j) Phase II - IV will create additional direct and indirect employment;
and

(k) Developer commits to exploring opportunities for sustainable building design and operational efficiencies; and

(l) Both local and non-local businesses as well as nationally-based companies will utilize the data center; and

(m) The Project meets the stated JOBZ criteria for both State of Minnesota and City of Duluth public purpose benefits including creating jobs which offer high wages; encouraging businesses to undertake expansions to add and retain jobs; enhancing regional economic growth; supporting businesses which make a long-term commitment to employment in the community; mitigating barriers to development of sites with constraints; and encouraging growth consistent with good planning; and

(n) The Project presents a key investment in critical infrastructure in support of our regional businesses and creates an environment for future job creation; and

(o) The Project is different from others for which the City has provided economic development assistance in that it is more beneficial to the community by its development of a technology infrastructure component needed for further high tech business development than in its actual job creation; and

(p) This is akin to having appropriate utility services, schools and other infrastructure available to prospective employers and businesses; and

(q) The job creation economic development model of counting jobs directly created by the Project would cause this Project to be rated quite low and therefore it is desired that the City Council make a policy decision on whether a substantial economic development business subsidy (nearly \$1,400,000.00 present value [an estimated \$950,000 through JOBZ and \$435,000.00 in Tax Increment Financing]) will be considered; and

(r) The Duluth Economic Development Authority indicated conceptual support for this Project at the May 22, 2011 meeting; and

(s) The City Council has duly considered this matter and has determined that it is appropriate for an economic development project to receive a substantial public business subsidy if it provides substantial benefits to the community other than job creation.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Duluth, Minnesota as follows:

(a) The City Council hereby determines that it will consider providing substantial business subsidy assistance to an economic development project that provides substantial benefits to the community other than direct job creation.


(b) The City Council hereby determines that it will consider making JOBZ benefits and Tax Increment Financing available to the Project.

(c) Nothing in this Resolution shall constitute any approval of any aspect of the Project or of any economic development assistance. Such approval can be provided only after public hearings, full consideration of the Project and an approving vote of the City Council.


Approved:


Department Director

Approved for presentation to council:


Chief Administrative Officer

Approved as to form:


Attorney

Approved:


Auditor

DEDA BH:bel 06/07/2011

STATEMENT OF PURPOSE: The City of Duluth and several development partners including APEX have been pursuing a strategy of attracting a data center operation to our community for over five years. Data centers provide critical infrastructure to support regional businesses and the growth of technology and technology-related services. This infrastructure requires significant investment in physical infrastructure, and creates relatively few jobs in comparison to the investment required. This resolution acknowledges the unique benefit in the community of data centers. It further acknowledges that the benefit of the infrastructure must be carefully considered in addition to the traditional measure of job growth.

DATA CENTER OPPORTUNITY FOR DULUTH

Updated Memorandum 6/6/2011

Enclosed you will find a proposal including the property purchase, construction project and JOBZ/Tax Increment Financing request from Involta. This proposal encompasses one new data center structure to be built on Technology Drive and a redevelopment project at a satellite location in Duluth. This memo is provided to briefly summarize the project information.

Company History

In 2007, Involta was formed through a merger of Technology Resources Company (TRC) and CoVault Technology, LLC. The combination of CoVault, the only co-location data center company in the Cedar Rapids/Iowa City corridor, with the data management expertise of TRC created a company that can both house and provide support for customers' increasingly critical data infrastructure. Involta was formed as a limited liability company and is owned by members of the management team and personnel as well as outside investors.

At inception, Involta had 27 employees and substantially all of the company's clients were from the local market. Today, Involta employs 48 and the company's sales have doubled, due to the growth of national clients. Involta provides both the physical facilities and technical expertise necessary to secure data and provide disaster recovery services for businesses. Involta was recently named to Inc.'s 500 List of Fastest Growing Companies at #40 and the company and its CEO, Bruce Lehrman were acknowledged as Technology Company and CEO of the Year by the Iowa Technology Association.

Involta Philosophy

A data center in Duluth, MN would place a Tier III data center within 150 miles of the 16th largest Metropolitan Statistical Area, Minneapolis/St. Paul, which Involta believes is underserved with respect to data center facilities. Involta believes it can establish robust and competitive electrical supply as Duluth is served by diverse sources of generation supply, redundant transmission supply and the distribution supply is shared with the local utility control center. Involta also believes it can partner with customers and carriers to establish access to nearby fiber. This new construction anticipates at least a 10% energy efficiency savings over similar existing data centers as well as similar savings from the energy consumption of its customers. Duluth is a natural selection for a world-class data center. As the cooling process is a significant component in the data center, approximately 40% of the total power consumption, the Duluth facility will be able to utilize air exchange to make the cooling process more efficient.

Provided the success of the initial build, the potential expansion of Involta's facility in Duluth up to approximately \$40 million over four phases builds upon competitive electrical supply, established fiber connectivity and continued interest from new customers. This level of investment would result in not only temporary construction jobs, but full-time permanent jobs in the data centers and associated businesses which results in other economic advantages to the region.

Project Summary

Involta plans to build a new data center facility on Technology Drive. Phase 1 would be approximately 24,000 square feet which includes about 4,000 square feet of high end office space. The company has plans for up to 3 more phases on this property as seen in the Site Plan, **Exhibit 2**. To make this project feasible, Involta is requesting JOBZ and Tax Increment Financing from the City of Duluth and has put together a financing package with regional gap financiers.

Job Creation and Economic Impact

Data centers are very valuable assets to communities both in providing important IT and telecom infrastructure and as economic drivers for employment. Data centers typically do not employ a lot of people directly. Involta has 48 employees currently employed in the Midwest. In Duluth, Involta will employ 8 area residents within one year with an average salary of \$72,000 a year or total wages of about \$576,000. Involta's employee benefits include health care insurance and retirement contributions.

Here's what's important, or as we like to say... the prize. For every data center job created, it is estimated that an additional 5 to 10 more high-paying jobs are created as a result of having a data center in a community. Some of these additional jobs may be created by customers who can now focus on their core business, some may be through the highly skilled vendors who support the technical needs for the data center's systems and as evidenced in Involta's case, some are brought into the area by customers who want to locate complimentary lines of business next to the data center. In many cases, these are jobs that pay between \$50,000 and \$70,000 a year. According to the Labovitz School of Business and Economics, at the University of Minnesota Duluth, these employees will pay 12.9% of their wages in state and local taxes. Assuming an average wage of \$60,000 a year, that's the potential for an additional 40 to 80 jobs and incremental state and local tax revenues of \$310,000 to \$620,000 per year, year after year.

Data centers, like Involta, are economic expansion engines. In Cedar Rapids where Involta has a colocation data center, a Chicago business is considering a move of its entire data storage and processing management operation to Cedar Rapids so it could be close to Involta's data center. As a result about 50 new jobs would be created in Cedar Rapids with an estimated \$3.5 million payroll. Plus this company would also rent space and buy other services in that community.

Gap Financing Request

Below you will see the proposed financing structure to complete Phase 1 on Technology Drive and the satellite facility project and fiber connection. Collateral will be determined by the financing agencies. Involta's total financing package to complete the building project and secure working capital is as follows:

Source and Use of Funds

Proposed Source of Funds (Technology Drive)

Bank	\$6,825,000	65%
SBA 504	1,090,000	10%
Gap Funding Partners	750,000	7%
<u>Equity</u>	<u>1,835,000</u>	18%
Subtotal	\$ 10,500,000	

Proposed Source of Funds (Satellite)

Bank	\$2,325,000	75%
<u>Equity</u>	<u>775,000</u>	25%
Subtotal	\$3,100,000	
TOTAL	\$13,600,000	

Use of Funds (Technology Drive)

Construction	\$ 9,400,000
(Approx. 24,000 SF)	
Land Purchase & Site Work	650,000
Machinery & Equipment	400,000
<u>Furniture and Fixtures</u>	<u>50,000</u>
Subtotal	\$10,500,000

Use of Funds (Satellite)

Remodeling and Build-Out	\$2,100,000
(Approx. 20,000 SF)	
Fiber Build Out	800,000
Machinery & Equipment	185,000
<u>Furniture and Fixtures</u>	<u>15,000</u>
Subtotal	\$3,100,000
TOTAL	\$13,600,000

JOBZ / TIF Request

Involta is requesting JOBZ coupled with a net present value of approximately \$434,000 in tax increment financing (TIF) assistance. The tax increment is approximately \$111,000 per year for 6 years following JOBZ. In this proposal the company would benefit from JOBZ 2012 – 2015 and TIF which would end in 2022. The method of TIF is proposed to be on a “pay-as-you-go” basis. Involta is requesting JOBZ and TIF to improve cash flow and return on investment over time. More specifically, the cost of constructing a data center is high in comparison to other buildings of this size due to major mechanical, electrical, security, and networking needs. Currently the site is not shovel ready and fiber is not available requiring major infrastructure improvements to the site. To meet the needs of its customers the Duluth’s project requires investments in two properties in Duluth while also undergoing a project in Akron, Ohio.

Terms and Conditions of the JOBZ / TIF Request

Based on preliminary projections, approximately \$111,000 in tax increment would be generated annually. If the City chooses to proceed with this project, legal and financial consultants will prepare documents and conduct a full financial review to determine the appropriate terms and conditions of this project.

Costs Incurred by City

It is the City’s policy to require applicants to escrow funds to cover all costs incurred by the City with processing a JOBZ/TIF request. A deposit of \$10,000 is required upon conceptual approval. If this deposit is inadequate additional funds will be escrowed.

Administrative Expenses

The City may capture up to 10% of the annual increment to cover administrative expenses incurred by the City associated with the tax increment financing district. Assuming \$111,000 per year in increment, a maximum of \$11,100 may be used for administrative expenses annually. For this project and others in the past the City has generally captured 5% or less for administration expenses.

Proposed Timeline

Please review the attached **Exhibit 1**, Involta Timeline.

Closing Comments

In conclusion, data centers mean access to more technology, faster processing, more cost competitive capacity along with the opportunity to attract more high tech, IT and telecom companies. That means more high paying jobs in Minnesota and Duluth.

Exhibits

1. Involta Timeline
2. Site Plan

EXHIBIT 1

Involta Timeline

1. June 13, 2011 – Present project to Duluth City Council.
2. June 14, 2011 – St. Louis County is requested to pass the JOBZ Subzone Modification Resolution.
3. June 20, 2011 – Duluth ISD is requested to pass the JOBZ Subzone Modification Resolution.
4. June 22, 2011 DEDA holds Public Hearing and is requested to approve resolution modifying Tax Increment Financing (TIF) Plan for District No. 20 eliminating certain parcels and a TIF Plan for District No. 25.
5. Through July 18, 2011 – St. Louis County and Duluth ISD can make comments on the TIF Plan.
6. July 18, 2011 – Duluth City Council holds Public Hearings and is requested to pass resolutions on the following:
 - a. TIF Plan No. 25 and Development Agreement.
 - b. JOBZ Business Subsidy Agreement subject to DEED's approval and signature.
7. August 1, 2011 – Commence construction.

